1946

International Shoe Company

1509 WASHINGTON AVENUE

St. Louis 3, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1946

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NOVEMBER 30, 1946

January 11, 1947

TO OUR STOCKHOLDERS:

Financial report showing the results of International Shoe Company's operations for the fiscal year ended November 30, 1946, is submitted herewith.

As shown by the Profit and Loss Statement $5,448,781 was transferred to surplus as the result of the year's operation. This amount, equal to $1.62 per share, compares with a net profit of $5,568,720 or $1.66 per share last year. Federal taxes on income resulted in a net credit to the profit and loss account of $2,152,414 compared with a net charge of $5,162,490 in 1945. The comparisons are better understood when viewed in the light of the most unusual conditions which prevailed in the last weeks of the Company's fiscal year. Decontrol of hides, leather and shoes just 31 days before the close of the Company's fiscal year provided the opportunity which enabled the Company to replace quickly (though at high prices) a large amount of inventories which were then valued most conservatively under the last-in, first-out method. This resulted in a substantial charge to "cost of shoes and merchandise sold," in the Statement of Profit and Loss, with a favorable carry-back adjustment of excess profits taxes, and placed the Company in a most favorable inventory position with which to open the year 1947.

Net sales to customers were $135,031,487 compared with $148,783,704 last year.

The Company's own supply plants (tanneries, cotton mill, rubber plant, etc.) produced during the year shoe materials and supplies to the value of $67,427,505 which combined with our sales made an aggregate of $202,458,992 business transacted.

Our factories produced 47,365,304 pairs of shoes as against 52,650,790 last year.

NINETEEN HUNDRED FORTY-SIX

Permanent decontrol of hides, leather and shoes on October 31, 1946, marked the end of about 5 years of Government control of the prices of these articles. Hides were placed under ceiling prices on June 15, 1941, leather on December 29, 1941, and shoes on May 11, 1942 based on prices in effect on shipments in March 1942. During the control period, wage rates advanced approximately 50%. Domestic leather advanced 6% and imported items up to 40% or more, while many textile, rubber, metal, and wood items advanced up to 30% all with OPA approval. In addition, further increases in cost of materials resulted from other developments which are inevitable in an extreme seller's market. Further increases in cost of labor also resulted from lessened productivity due to a great increase in inexperienced help and other conditions which develop in time of manpower shortage.

It is conservatively estimated that the cost of producing shoes of approximately the same grade and type increased up to 30% during the control period. The prices of shoes, frozen as of the prices of March 1942, were held rigid until January 5, 1946, when the OPA granted a general increase of 4½% to shoe manufacturers. In June and July further increases of approximately 10% were granted on those shoes which had been produced without change since March 1942. These were the only general increases which shoe manufacturers were permitted during the control period. Thus, in a period of almost five years, the shoe industry was permitted general increases from 4½% to as much as 15% in prices, while costs rose as much as 30%.

Certain other means were afforded by the OPA regulations for obtaining specific price increases, but these were of little benefit to long established companies which regularly had produced a wide range of standard, well-recognized types of nationally known brands of shoes, such as our Company. In fact, it has been recognized, in many lines of business, that OPA pricing policies penalized old-line, established companies which continued the production and maintained the quality of their well-known articles.

The Company's published reports for the years 1944 and 1945 called attention to the steady decreases in margins resulting from OPA ceiling prices and steadily rising costs. The situation was accentuated in 1946 by the state of uncertainty which prevailed rather steadily throughout most of the Company's fiscal year as to termination of price control. Dealers and producers of hides through two comparatively long periods withheld them from the market in anticipation of either a free market or a considerable upward adjustment in OPA price ceilings. Hide prices had been kept at the price in effect in June 1941 without adjustment, and it appeared that the price of hides was considerably below the level which would represent the normal historical relationship with other commodity prices and related economic factors—also they were priced at about one-half of world market prices. For this reason owners of hides were not inclined to dispose of them. This withholding was, of course, augmented considerably by the parallel situation which existed in the livestock and meat markets, in which considerable withholding from market occurred in two separate periods in expectation either of decontrol or of an adjustment in ceiling prices. Hides, of course, are a by-product of the livestock and meat markets and thus this primary source of hides was affected in the same way by the same economic forces as were hides.

This condition produced a situation where very few hides and limited amounts of leather moved in regular channels of trade for several months prior to July 1 and again between July 26 and permanent decontrol on October 31. Until permanent decontrol, only in the period of free markets from July 1 to July 25, were hides available in large quantities—but at high prices. Again after permanent decontrol on October 31, hides were plentiful—again at high prices.

With the drying up of raw material supplies, during the two comparatively long periods referred to, the Company adopted the policy of continuing to produce shoes and leather from its normal working stock of leather and hides and to maintain a flow of shoes to its customers.

Because of this, the Company purchased a much larger volume of its requirements of principal raw materials in the two periods of free markets than was represented by its shipments of finished product in these periods.

This meant that under the more or less unprecedented circumstances which existed, the Company deliberately chose what it deemed the sound policy for the long term, to continue the steady sale and shipment of its shoes, even though this meant reducing its normal working inventories to a very low level at a time when it was quite evident that a considerable rise in prices of hides, leather and shoes was imminent. The net effect from a short term profit standpoint was that the Company under such a policy paid high prices for its raw materials while selling shoes below their worth based upon the quality and cost of materials, and the quality and cost of workmanship, put into them.

In the year 1946, as in other years of wartime shortages and control, the Company steadfastly adhered to its wartime policy of maintaining high relative quality in the continued production of the greatest possible number of serviceable civilian shoes of the types, kinds and grades which it had produced before the war, and at the same time distributing these shoes fairly among the thousands of retailers and distributors who have depended upon it.

The immediate short term effect was one of restricted earnings—its long term effect is presaged by the fine acceptance now accorded its product, prices and policies.

With the coming of free markets, the consumer is becoming increasingly price conscious and selective. Many price and profit situations which mushroomed during wartime conditions have already collapsed. Real values at reasonable prices are again important not only for the retail merchant but also for the consuming public.

We believe our Company is well situated to enjoy a large volume of business, profitably, in the more competitive situation which is unfolding.

PRODUCTION AND SHIPMENTS

Sales and shipments in 1946 continued to be limited only by ability to produce. Demand continued to exceed our productive ability and, throughout the year, distribution of our product was made under the "equitable distribution" or "quota plan" which has been in effect for several years.

While total shipments in dollars showed a decrease of $13,700,000, shipments of civilian shoes showed an increase of $34,400,000 in 1946 compared with 1945, military volume dropping off $48,100,000.

Total production of shoes for the year was about 10% less than in the previous year. This decrease is accounted for by the large volume of military production in 1945 and by strikes, material shortages, and other difficulties, which prevented substantial amounts of additional production of civilian shoes in 1946. Despite these handicaps, production of civilian shoes was 17% greater in 1946 than in 1945.

Three factors will contribute to considerable increase in production in the year 1947; (1) the greater availability of factory workers, (2) the prospect of adequate supplies of materials, and (3) the increase in plant facilities which is being steadily accomplished.

PRICES—COSTS

Immediately after decontrol of hides, leather and shoes on October 31, the price of hides practically doubled. Prices of leather made from cattle hides advanced about 50%, and some other types of leather even more. The Company's shoe prices after decontrol were set on the basis of increases of 0% up to 25%, with an average of about 15%. These increases did not fully reflect the replacement cost of raw materials. The market price of hides has since receded somewhat, leather made from cattle hides has not advanced further, and it is hoped that present shoe prices can be maintained. We are keenly aware of the retarding effect of high prices on buying with corresponding loss of production; and we are determined to do what we can to prevent such a situation.

WORKING CAPITAL

The decrease in cash and Government bonds, (after providing tax notes to cover Federal tax liability) amounted to $15,600,000 and was roughly offset by the increase in accounts receivable and inventories amounting to $14,000,000. This reflects the higher price level, the increase in civilian business, and the replacement of inventories maintained on the last-in, first-out basis which previously had been liquidated.

The use of the last-in, first-out method for evaluating its principal inventories was adopted by the Company at the close of 1941 with respect to hides and leather and at the close of 1942 with respect to shoes in process and finished shoes. This method has proved advantageous in maintaining the Company's inventories on an extremely conservative price basis and in reducing its tax liability during the years of high tax rates.

As was explained when first adopted, the purpose of the use of the last-in, first-out method is to avoid during wide movements in the general price level, some of the artificial profits and losses which inevitably result from appreciation and depreciation in inventory values under the old method of "cost or market, whichever is lower." The price of the Company's basic raw material, hides, has been recognized as one of the most sensitive of all commodities and is one which has been subject to wide fluctuations particularly in time of war.

In spite of the greatly increased investment in inventories and receivables which will result from present higher price levels and expanded production the Company's financial position is so strong that no addition to capital or long-term financing is contemplated.

NET PROFIT FOR THE YEAR

As shown by the Profit and Loss Statement, the net transfer to surplus of $5,448,781 includes among other things tax refunds of $3,533,744 and the elimination of Reserve for Contingencies of $1,000,000. Due to the extremely conservative evaluation of inventories under the last-in, first-out method, it was deemed unnecessary to continue the Reserve for Contingencies.

TAXES

Provision for taxes on 1946 income amounted to $1,381,330.

A claim for refund of Federal taxes, resulting from the carry-back of unused excess profits credit resulting from 1946 operation, amounted to $2,211,001.

Another claim for refund of Federal taxes, arising out of replacement in 1946 of inventories under Section 22 (d)(6) of the Internal Revenue Code, amounted to $1,322,743.

LOST TIME DUE TO STRIKES AND WORK STOPPAGES

The Company's operation suffered indirectly from widespread strikes and work stoppages throughout the country. Two strikes had a direct effect. One was the strike of the truckers which took place in St. Louis, Missouri, from January 7 to January 25. The strike over which the Company had no control resulted in the shutdown of about 90% of the Company's manufacturing facilities for periods of two to three weeks.

Between July 24 and August 8, a large amount of production was lost due to shutdowns resulting from widespread picketing of Company plants and departments in no way directly involved in a strike of about 15 workers in the shoe ticket printing department, who demanded an increase in rates in excess of the ones which had been agreed to with CIO, AFL and independent unions, effective June 3. These two strikes caused a loss to our Company's employees estimated at 3 million manhours. A number of other local work stoppages increased substantially the total manhours lost. There were two consequences: the considerable loss of earnings to our workers, and the loss of production of several million pairs of shoes which were needed by consumers.

EMPLOYEE MATTERS

The Company started the year with about 30,000 employees, and closed the year with approximately 33,000 employees.

In addition to the wage increase announced in last year's report of 10-12½% effective December 3, 1945, the Company granted two increases during the fiscal year 1946. As the result of these two increases, effective June 3 and September 2, the Company's wage rates on November 30, 1946 were approximately 30% higher than those in effect on November 30, 1945, and approximately 50% over the wage rates in effect when shoe prices were frozen as of March 1942.

The guaranteed minimum wage rates are now 57½-67½c per hour depending on length of service and location.

Three paid holidays were granted effective September 2, 1946.

During the year, the weekly scheduled operating time was reduced to 40 hours, from the longer overtime weekly schedule which became virtually standard during several years of war-time operation.

During the year the employment situation has shown considerable improvement; labor turn-over now being only about half of what it was during the war period. These more settled conditions should result in improved productivity by reason of fewer inexperienced workers, and the improvement in the worker's general regard for his job growing out of the more stable conditions which appear to be developing.

PLANT FACILITIES

The post-war program of expansion of plant facilities now includes 17 new plants in Missouri, Arkansas, Kentucky, Illinois and Tennessee. Of these 14 are shoe factories, 2 are sole cutting plants and one a tannery. Four of the shoe factories and one of the sole cutting plants are now in operation. Five more shoe factories, the second sole cutting plant and the tannery will be in production in the early months of 1947. The remaining five shoe factories are in the blueprint stage, but completion depends on availability of construction materials and labor.

NATIONALLY KNOWN BRANDS

Approximately $100,000,000 of the Company's sales last year were on the Company's own nationally known brands of shoes.

National advertising of its brands was continued in a large way throughout the war period and with the return of competitive selling the Company expects to maintain the leadership of its well-known brands through expanded national advertising and aggressive distribution plans.

NINETEEN HUNDRED FORTY-SEVEN

The Company's prospects for 1947 and beyond appear quite favorable. The principal basis for such favorable outlook is the good-will of customers and shoe retailers generally which we confidently believe is at the highest point of the Company's history. Numerous expressions of this good-will received daily serve to confirm our conviction that the new high levels of production immediately ahead will be distributed successfully. The prospect is further founded on the Company's determination to maintain the quality of its product and to distribute it fairly among its many customers.

While any one month should not be considered indicative of a year's volume, we are gratified to report that the Company's shipments for the first month of its 1947 fiscal year exceeded $21,000,000—by far the largest month in the Company's history.

With efficient production and a sound cost structure, the Company is in a position to set favorable prices in the competitive market just ahead on a profitable basis.

CONCLUSION

Nineteen Hundred Forty-Six has been a year of economic confusion and cross currents presenting many pit-falls of expediency into which a vacillating policy could easily drift. It is with extreme satisfaction and pride that we review the year's work with the consciousness that the foundation of our Company has been strengthened and that the management has exercised courage in maintaining under adverse conditions, the sound principles on which the International Shoe Company has been built. In 1946, we have emphasized the necessity of careful preparation for lasting expansion and sound operations in the years that lie ahead.

With this fixed determination in mind we enter 1947 with hope, courage, and assurance of continued success.

FOR THE BOARD OF DIRECTORS

Frank C. Rand
Chairman of the Board

Byron A. Gray
President

INTERNATIONAL

BALANC

As of Noven

ASSETS

Current Assets:			
Cash in banks and on hand		$	6,831,792
United States Government securities, including $2,418,720 tax notes	$ 6,042,386		
Less—Amount of tax notes applied against Federal tax liability as per contra	1,690,000		4,352,386
Accounts receivable:			
Customers, less reserve for cash discounts and doubtful accounts	16,727,571		
Traveling advances to salesmen and sundry accounts	162,670		16,890,241
Inventories:			
At cost (determined on the "last-in, first-out" method):			
Finished shoes	11,975,145		
Shoes in process	2,200,754		
Hides and leather	13,090,367		
At lower of cost or market:			
Miscellaneous raw materials, merchandise and supplies on hand and in process	14,812,107		42,078,373
Refunds of Federal taxes on income resulting from the carry back provisions of the Internal Revenue Code			2,211,001
			72,363,793
Refunds of Federal taxes resulting from replacement under Section 22 (d) (6) of the Internal Revenue Code of inventories maintained on "last-in, first-out" basis			2,468,200
Company's Own Common Stock—9,400 shares at net cost (at quoted market prices $371,300)			243,134
Advances to ($30,000) and Investment in Subsidiary and Associated Companies (less reserve)			215,805
Investment in Stocks of other Companies, Etc. (less reserve)			473,074
Physical Properties at tanneries, shoe factories, supply departments, and sales branches (based on appraisal as of April 30, 1925, plus subsequent additions at cost):			
Land and water rights	1,898,353		
Buildings and structures	22,373,138		
Machinery and equipment	20,852,442		
Lasts, patterns, and dies	1		
	45,123,934		
Less—Reserve for depreciation	29,225,778		15,898,156
Deferred Charges—insurance premiums, taxes, and sundry			542,961
		$	92,205,123

SHOE COMPANY

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ber 30, 1946

LIABILITIES

Current Liabilities:		
Accounts payable for merchandise, expenses and payrolls		$ 9,390,754
Due to subsidiary companies		96;927
Employees income tax withheld from payroll		552,961
Officers, stockholders, and employees balances		138,189
Accrued employees vacations		1,243,897
Employees partial payments for government bonds		128,908
Reserve for Federal taxes on income	$ 1,690,000	
Less—United States Government notes purchased for payment of taxes, as per contra	1,690,000	—
		11,551,636
Reserves:		
For excess cost of replacing inventories maintained on the "last-in, first-out" basis, less income taxes applicable thereto	210,000	
For insurance	713,789	923,789
Capital Stock:		
Common Stock — authorized 4,000,000 shares without nominal or par value, whereof issued and outstanding—3,350,000 shares	50,250,000	
Earned Surplus	29,479,698	
(Of the earned surplus, $243,134 used for the purchase of company's own common stock, as per contra)		79,729,698
		$ 92,205,123

INTERNATIONAL SHOE COMPANY

STATEMENT OF PROFIT AND LOSS

For the year ended November 30, 1946

Net sales of shoes and other manufactured merchandise	$	135,031,487
Other income		187,158
Reduction in reserve provided for excess cost of replacing inventories maintained on the "last-in, first-out" basis		100,000
Estimated refunds of Federal excess profits taxes resulting from the application of the carry back provisions of the Internal Revenue Code		2,211,001
	$	137,529,646
Cost of shoes and merchandise sold, after charging operating expenses, maintenance of physical properties, selling, administrative, and warehouse expenses, and credit losses, less discount on purchases		132,026,902
Depreciation of physical properties		995,376
Provisions for Federal taxes on income less estimated refunds of $1,322,743 resulting from excess cost of replacing inventories maintained on "last-in, first-out" basis		58,587
		133,080,865
NET PROFIT	$	4,448,781
Transfer of amount reserved for contingencies previously charged to profit and loss—reserve not necessary at close of year for purposes for which originally provided		1,000,000
AMOUNT TRANSFERRED TO SURPLUS	$	5,448,781

STATEMENT OF CAPITAL STOCK AND SURPLUS

Common stock and surplus at November 30, 1945:				
Common stock (outstanding 3,350,000 shares)			$	50,250,000
Earned surplus				30,043,997
				80,293,997
Net Profit for the year and reserve for contingencies previously charged to profit and loss				5,448,781
				85,742,778
Dividends:				
Common stock—$1.80 per share	$	6,030,000		
Less—Dividends on company's own common stock		16,920		6,013,080
Common stock and surplus at November 30, 1946				79,729,698
Divided as follows:				
Common stock (outstanding 3,350,000 shares)		50,250,000		
Earned surplus		29,479,698	$	79,729,698

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

St. Louis, Missouri, December 31, 1946

ACCOUNTANTS' REPORT

To the Board of Directors,
International Shoe Company,
St. Louis, Missouri.

We have examined the Balance Sheet of the International Shoe Company, a Delaware Corporation, as of November 30, 1946 and the statements of Profit and Loss and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Renegotiation proceedings have not been commenced with respect to shipments under Government contracts for the preceding fiscal year; however, it is believed that, on the basis of past experience, no refund will be required.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the International Shoe Company at November 30, 1946 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

OFFICERS

Frank C. Rand	Chairman of the Board
James T. Pettus	Vice-Chairman of the Board
Byron A. Gray	President
Andrew W. Johnson	Vice-President and Treasurer
Paul B. Jamison	Vice-President
Oliver F. Peters	Vice-President
H. Edgar Jenkins	Vice-President
Arthur B. Fletcher	Vice-President
Dickson S. Stauffer	Vice-President
Robert O. Monnig	Comptroller and Asst. Sec'y
Carl E. Brueckmann	Secretary
William N. Sitton	Assistant Treasurer

DIRECTORS

Robert E. Blake
Samuel Bown
Carl E. Brueckmann
Clarence H. Fielder
Arthur B. Fletcher
Byron A. Gray
H. Roy Green
Clemence L. Hein
Edward J. Hopkins
Fred Hume
Lewis B. Jackson
Paul B. Jamison
H. Edgar Jenkins
Andrew W. Johnson
J. Lee Johnson
Robert L. Jordan
Robert O. Monnig
William H. Moulton
Oliver F. Peters
James T. Pettus
Edgar E. Rand
Frank C. Rand
Henry H. Rand
William N. Sitton
Dickson S. Stauffer

TRANSFER AGENTS

Manufacturers Trust Co., New York, N. Y.
Mississippi Valley Trust Co., St. Louis, Mo.

REGISTRARS

Guaranty Trust Co., New York, N. Y.
St. Louis Union Trust Co., St. Louis, Mo.

SALES BRANCHES

St. Louis

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.

St. Louis

Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

Manchester, N. H.

Sundial Shoe Co.
Great Northern Shoe Co.
Metro-craft Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

Missouri

Bland
Cape Girardeau
De Soto
Dexter
Eldorado Springs
Fulton
Hamilton
Hannibal
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Charles
St. Clair
Ste. Genevieve
St. Louis
Sikeston
Sullivan
Sweet Springs
Washington
West Plains
Windsor

Illinois

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

New Hampshire

Claremont
Manchester
Nashua
Newport

Kentucky

Hopkinsville
Paducah

Arkansas

Bald Knob
Batesville
Conway
Malvern
Russellville
Searcy

TANNERIES

Illinois

South Wood River

Missouri

St. Louis

New Hampshire

Manchester
Merrimack

North Carolina

Morganton
North Wilkesboro
(Extract Plant)

Pennsylvania

Philadelphia

Tennessee

Bolivar

West Virginia

Marlinton